

Message Text

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73

ACTION ARA-17

INFO OCT-01 EA-11 ADP-00 SCEM-02 INT-08 OEP-01 AID-20

CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

DODE-00 PM-07 H-02 L-03 NSC-10 PA-03 PRS-01 SS-15

USIA-12 AGR-20 CU-04 RSR-01 /191 W

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R 232303 Z MAY 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 7548

INFO AMEMBASSY CARACAS

AMCONSUL GUAYAQUIL

AMEMBASSY LIMA

AMEMBASSY TOKYO

C O N F I D E N T I A L QUITO 2740

E. O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: PETROLEUM: JAPANESE OFFER TO BUY ROYALTY CRUDE

ACCEPTED

REF: QUITO 2363

1. SUMMARY: MINISTRY OF NATURAL RESOURCES TOOK OFFER OF SUMITOMO TO PURCHASE GOVERNMENT'S ROYALTY CRUDE AT 41 CENTS PER BARREL ABOVE CURRENT REFERENCE PRICE. SOME OTHER BIDDERS CLAIM TO HAVE PROOF THAT THE BIDDING WAS RIGGED. A SCANDAL MIGHT DISSOLVE THE DEAL. IF NOT, JAPAN WILL HAVE BECOME A FACTOR ON THE ECUADOREAN PETROLEUM SCENE. OTHER PETROLEUM PRODUCING COUNTRIES MAY BE MOVED TO CONSIDER TAKING THEIR ROYALTY CRUDE IN KIND. END SUMMARY.

2. MINISTRY NATURAL RESOURCES ANNOUNCED SELECTION OF SUMITOMO SHOJI KAISHA FROM AMONG 24 FIRMS WHICH MADE OFFERS TO BUY GOE'S SIXTEEN PERCENT ROYALTY SHARE OF CRUDE FOR NEXT TWO YEARS. AT
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CURRENT RATE OF PRODUCTION THIS IS AROUND 35 THOU BBD.

3. ACCORDING TO MINISTRY ANNOUNCEMENT, SUMITOMO OFFERED \$3.61 PER BARREL SUBJECT TO UPWARD REVISION AS MARKET CHANGES. SUMITOMO ALSO ACCEPTS TRANSPORTATION BY ECUADOREAN PETROLEUM FLEET (PRESENTLY CONSISTING OF ONE TANKER); AGREES TO PROMOTE ECUADOREAN BANANAS IN JAPANESE MARKET AND TO COOPERATE WITH SCHOLARSHIPS AND OTHER PROGRAMS OF INTEREST IN PETROLEUM ACTIVITY.

4. IF A CONTRACT IS NOW MADE IT WILL REPRESENT FIRST DIRECT JAPANESE INVOLVEMENT IN ECUADOREAN PETROLEUM. DESPITE FEELERS BY SOME AMERICAN COMPANIES TO JAPANESE FIRMS FOR EQUITY PARTICIPATION IN EXPLORATORY CONSORTIA, THE JAPANESE HAVE SO FAR DECLINED - REPORTEDLY AS A RESULT OF A GOJ POLICY DECISION AGAINST IT. HOWEVER, IN ADDITION TO SEEKING ACCESS TO ECUADOREAN PETROLEUM THROUGH PURCHASE OF ROYALTY CRUDE, JAPANESE ARE AVIDLY SEEKING CONTRACT TO BUILD REFINERY. ALSO, ACCORDING TO A MINISTRY SOURCE, A JAPANESE FIRM HAS OFFERED \$9 MILLION TO FINANCE THE STATE PETROLEUM COMPANY'S EXPLOITATION OF KNOWN

FIELDS IN ACREAGE THAT TEXACO- GULF HAD TO GIVE UP LAST DECEMBER 31.

5. HOWEVER, THE ROYALTY CRUDE PURCHASE IS NOT YET IN THE BAG FOR SUMITOMO. AS SOON AS THE MINISTRY MADE ITS ANNOUNCEMENT, ALLEGATIONS OF RIGGING WERE RAISED BY SOME OTHER BIDDERS. (SEE SEP DAO IR68280054 73 MESSAGE FOR ADDITIONAL DETAILS). A PUBLIC SCANDAL MAY BE ABOUT TO BREAK, UNHINGING THE AWARD TO SUMITOMO.

6. CARACAS 4200 NOTED VENEZUELAN BIDDING FOR ECUADOREAN CRUDE. FIRM THAT MADE OFFER WAS HIDECA, NOT CVP. UNLESS ECUADOREAN SALE ENDS UP AS SCANDALOUS FIASCO, WE AGREE IT COULD SERVE AS A PRECEDENT FOR ROYALTY CRUDE SALES BY OTHER PRODUCING COUNTRIES. HOWEVER, GULF MANAGER BERNARDO DIAZ, WHO IS VENEZUELAN, RECALLS THAT VENEZUELA TRIED THIS MANY YEARS AGO AND GOT BURNED WHEN BIDDERS FAILED TO COME ACROSS WITH ALL THEY HAD OFFERED. CHAPLIN

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